

**REPORT OF THE AUDIT OF THE
BOURBON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BOURBON COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Bourbon County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Bourbon County, Kentucky.

Financial Condition:

The Bourbon County Fiscal Court had total receipts of \$9,422,854 and disbursements of \$9,773,934 and a fund balance of \$10,292,149 as of June 30, 2014.

Report Comments:

2014-001 The County Should Accurately Report Debt On The Quarterly Financial Statement
2014-002 The County Should Strengthen Controls Over Payroll

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Michael R. Williams, Bourbon County Judge/Executive

Honorable Donnie R. Foley, Former Bourbon County Judge/Executive

Members of the Bourbon County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Bourbon County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by Bourbon County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Bourbon County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Bourbon County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matter

As discussed in Note 12 to the financial statement, the Bourbon County Fiscal Court has elected to change its financial statement presentation for their private purpose trust funds in 2014 in accordance with changes to the regulatory basis of accounting prescribed or permitted by the Department for Local Government and laws of the Commonwealth of Kentucky. Our opinion is not modified with respect to this matter.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Bourbon County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital assets schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital assets schedule are fairly stated in all material respects in relation to the basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 30, 2015 on our consideration of Bourbon County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 The County Should Accurately Report Debt On The Quarterly Financial Statement
- 2014-002 The County Should Strengthen Controls Over Payroll

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 30, 2015

BOURBON COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Donnie R. Foley	County Judge/Executive
Mark D. Offutt	Magistrate
Marion Dawson	Magistrate
Barry L. Hay	Magistrate
James Mason	Magistrate
Donald R. McCarty	Magistrate
Cecil Foley	Magistrate
John N. Smoot	Magistrate

Other Elected Officials:

Gordon Davis Wilson	County Attorney
Jon Ransdell	Jailer
Richard S. Eads	County Clerk
Beverly Smits	Circuit Court Clerk
Mark L. Matthews	Sheriff
Woodford Wayne Turner	Property Valuation Administrator
Rosemary Kitchen	Coroner

Appointed Personnel:

Mary Allen Hedges	County Treasurer
Mary Allen Hedges	Occupational Tax Collector
Lucia Sparks	Chief Financial Officer

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds					
	General Fund	Road Fund	Jail Fund	Local Government Economic Assistance Fund	Wright House Fund	Phase 1 Fund
RECEIPTS						
Taxes	\$ 4,059,780	\$	\$	\$	\$	\$
Excess Fees	814,746					
Licenses and Permits	66,970					
Intergovernmental	980,726	1,976,672	186,425	75,662		326,875
Charges for Services	14,140					
Miscellaneous	143,268	14,118	2,263			
Interest	12,824	7,078	958	1,012	26	2,255
Total Receipts	<u>6,092,454</u>	<u>1,997,868</u>	<u>189,646</u>	<u>76,674</u>	<u>26</u>	<u>329,130</u>
DISBURSEMENTS						
General Government	2,175,707					
Protection to Persons and Property	1,851,692		109,367	66,775		
General Health and Sanitation	219,863	21,151				
Social Services	230,194					
Recreation and Culture	279,054					
Roads		741,664				
Debt Service	350,636					
Capital Projects	171,520	886,494		60,000		
Administration	1,169,519	279,037	28,352			278,588
Total Disbursements	<u>6,448,185</u>	<u>1,928,346</u>	<u>137,719</u>	<u>126,775</u>		<u>278,588</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(355,731)</u>	<u>69,522</u>	<u>51,927</u>	<u>(50,101)</u>	<u>26</u>	<u>50,542</u>
Other Adjustments to Cash (Uses)						
Payroll Revolving Account	19,213					
Transfers From Other Funds						
Transfers To Other Funds						
Total Other Adjustments to Cash (Uses)	<u>19,213</u>					
Net Change in Fund Balance	(336,518)	69,522	51,927	(50,101)	26	50,542
Fund Balance - Beginning (Restated)	1,611,758	262,664	10,584	101,931	26,785	109
Fund Balance - Ending	<u>\$ 1,275,240</u>	<u>\$ 332,186</u>	<u>\$ 62,511</u>	<u>\$ 51,830</u>	<u>\$ 26,811</u>	<u>\$ 50,651</u>
Composition of Fund Balance						
Bank Balance	\$ 1,026,559	\$ 399,267	\$ 63,076	\$ 54,733	\$ 26,811	\$ 53,593
Payroll Revolving Account	19,213					
Less: Outstanding Checks	(33,355)	(67,081)	(565)	(2,903)		(2,942)
Add: Deposits in Transit						
Investments						
Certificate of Deposits	262,823					
Fund Balance - Ending	<u>\$ 1,275,240</u>	<u>\$ 332,186</u>	<u>\$ 62,511</u>	<u>\$ 51,830</u>	<u>\$ 26,811</u>	<u>\$ 50,651</u>

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	Unbudgeted Funds		
	Public Properties Corporation Courthouse Bonds Fund	Public Properties Corporation Bond Proceeds Fund	Educational Trust Fund Checking
RECEIPTS			
Taxes	\$	\$	\$
Excess Fees			
Licenses and Permits			
Intergovernmental		388,979	52,345
Charges for Services			
Miscellaneous	5,072		
Interest	12		
Total Receipts	<u>5,084</u>	<u>388,979</u>	<u>52,345</u>
DISBURSEMENTS			
General Government	105,242		
Protection to Persons and Property			
General Health and Sanitation			
Social Services			231,681
Recreation and Culture			
Roads			
Debt Service	99,241	393,003	
Capital Projects			
Administration			
Total Disbursements	<u>204,483</u>	<u>393,003</u>	<u>231,681</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(199,399)</u>	<u>(4,024)</u>	<u>(179,336)</u>
Other Adjustments to Cash (Uses)			
Payroll Revolving Account			
Transfers From Other Funds			315,430
Transfers To Other Funds			
Total Other Adjustments to Cash (Uses)	<u></u>	<u></u>	<u>315,430</u>
Net Change in Fund Balance	(199,399)	(4,024)	136,094
Fund Balance - Beginning	199,399	5,032	359,125
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 1,008</u>	<u>\$ 495,219</u>
Composition of Fund Balance			
Bank Balance	\$	\$ 1,008	\$ 493,681
Payroll Revolving Account			
Less: Outstanding Checks			
Add: Deposits in Transit			1,538
Investments			
Certificate of Deposits			
Ending Fund Balance	<u>\$ 0</u>	<u>\$ 1,008</u>	<u>\$ 495,219</u>

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	Private Purpose Trust Funds					
	Jason Marston Education Trust Fund	Clifton Gillespie Trust Fund	Willmott Memorial Trust Fund	EM Costello Trust Fund	Garth Trust Fund	Thomas Costello Trust Fund
RECEIPTS						
Taxes	\$	\$	\$	\$	\$	\$
Excess Fees						
Licenses and Permits						
Intergovernmental						
Charges for Services						
Miscellaneous	23,199	56,993	72,758	1,510	9,998	1
Interest	24,227	2,589	394			
Total Receipts	47,426	59,582	73,152	1,510	9,998	1
DISBURSEMENTS						
General Government						
Protection to Persons and Property						
General Health and Sanitation						
Social Services				7,334		
Recreation and Culture						
Roads						
Debt Service						
Capital Projects						
Administration						
Total Disbursements				7,334		
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	47,426	59,582	73,152	(5,824)	9,998	1
Other Adjustments to Cash (Uses)						
Payroll Revolving Account						
Transfers From Other Funds						
Transfers To Other Funds	(62,150)	(83,303)	(120,000)	(32,141)	(126,965)	(5,553)
Total Other Adjustments to Cash (Uses)	(62,150)	(83,303)	(120,000)	(32,141)	(126,965)	(5,553)
Net Change in Fund Balance	(14,724)	(23,721)	(46,848)	(37,965)	(116,967)	(5,552)
Fund Balance - Beginning (Restated)	1,418,511	1,440,642	2,381,876	37,965	116,967	5,552
Fund Balance - Ending	\$ 1,403,787	\$ 1,416,921	\$ 2,335,028	\$ 0	\$ 0	\$ 0
Composition of Fund Balance						
Bank Balance	\$ 48,509	\$ 20,329	\$ 123,228	\$	\$	\$
Payroll Revolving Account						
Less: Outstanding Checks						
Add: Deposits in Transit						
Investments	1,355,278	1,396,592	2,211,800			
Certificate of Deposits						
Ending Fund Balance	\$ 1,403,787	\$ 1,416,921	\$ 2,335,028	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Private Purpose Trust Funds						
Hamilton Trust Fund	Robert Meteer Trust Fund	Lucy Anderson Trust Fund	Harrell- Kennedy Trust Fund	Brooks Hinkle Trust Fund	Lou Davis Redmon Trust Fund	May Goff Trust Fund
\$	\$	\$	\$	\$	\$	\$
7	22,736	16,541	779	357	640	1,742
	6,165	5	1	2	2	1
7	28,901	16,546	780	359	642	1,743
	6,000					
	6,000					
7	22,901	16,546	780	359	642	1,743
(11,107)		(12,721)	(35,478)	(27,028)	(34,378)	(68,928)
(11,107)		(12,721)	(35,478)	(27,028)	(34,378)	(68,928)
(11,100)	22,901	3,825	(34,698)	(26,669)	(33,736)	(67,185)
11,100	856,140	399,894	34,698	26,669	33,736	67,185
\$ 0	\$ 879,041	\$ 403,719	\$ 0	\$ 0	\$ 0	\$ 0
\$	\$ 99,568	\$ 11,355	\$	\$	\$	\$
	779,473	392,364				
\$ 0	\$ 879,041	\$ 403,719	\$ 0	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	Private Purpose Trust Funds			
	Talbott Clay Trust Fund	Frances Champ Trust Fund	Ella Davis Trust Fund	FM Gillespie Trust Fund
RECEIPTS				
Taxes	\$	\$	\$	\$
Excess Fees				
Licenses and Permits				
Intergovernmental				
Charges for Services				
Miscellaneous	2,672	39	15,638	12,917
Interest	4		2	9
Total Receipts	<u>2,676</u>	<u>39</u>	<u>15,640</u>	<u>12,926</u>
DISBURSEMENTS				
General Government				
Protection to Persons and Property				
General Health and Sanitation				
Social Services				4,650
Recreation and Culture				
Roads				
Debt Service				
Capital Projects				
Administration				
Total Disbursements	<u></u>	<u></u>	<u></u>	<u>4,650</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>2,676</u>	<u>39</u>	<u>15,640</u>	<u>8,276</u>
Other Adjustments to Cash (Uses)				
Payroll Revolving Account				
Transfers From Other Funds				
Transfers To Other Funds		(51,373)		
Total Other Adjustments to Cash (Uses)	<u></u>	<u>(51,373)</u>	<u></u>	<u></u>
Net Change in Fund Balance	2,676	(51,334)	15,640	8,276
Fund Balance - Beginning (Restated)	333,015	51,334	68,436	204,959
Fund Balance - Ending	<u>\$ 335,691</u>	<u>\$ 0</u>	<u>\$ 84,076</u>	<u>\$ 213,235</u>
Composition of Fund Balance				
Bank Balance	\$ 18,351	\$	\$ 4,664	\$ 10,413
Payroll Revolving Account				
Less: Outstanding Checks				
Add: Deposits in Transit				
Investments	317,340		79,412	202,822
Certificate of Deposits				
Ending Fund Balance	<u>\$ 335,691</u>	<u>\$ 0</u>	<u>\$ 84,076</u>	<u>\$ 213,235</u>

The accompanying notes are an integral part of the financial statement.

BOURBON COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Private Purpose Trust Funds				
Howard Forquer Trust Fund	Education #1 Champ, Costello, Garth, Costello Trust Fund	Education#2 Kennedy, Hinkle, Redmon Trust Fund	Health and Welfare Trust Fund	Total Funds
\$	\$	\$	\$	\$ 4,059,780
				814,746
				66,970
				3,987,684
				14,140
1,465		1,176		405,889
769	15,272	3	35	73,645
<u>2,234</u>	<u>15,272</u>	<u>1,179</u>	<u>35</u>	<u>9,422,854</u>
				2,280,949
				2,027,834
				241,014
	6,326		844	487,029
				279,054
				741,664
				842,880
				1,118,014
				<u>1,755,496</u>
	<u>6,326</u>		<u>844</u>	<u>9,773,934</u>
<u>2,234</u>	<u>8,946</u>	<u>1,179</u>	<u>(809)</u>	<u>(351,080)</u>
				19,213
	219,505	161,877		696,812
(17,137)	(6,967)	(1,583)		(696,812)
<u>(17,137)</u>	<u>212,538</u>	<u>160,294</u>		<u>19,213</u>
(14,903)	221,484	161,473	(809)	(331,867)
540,667			17,283	10,624,016
<u>\$ 525,764</u>	<u>\$ 221,484</u>	<u>\$ 161,473</u>	<u>\$ 16,474</u>	<u>\$ 10,292,149</u>
\$ 19,030	\$ 1,979	\$ 7,922	\$ 3,450	\$ 2,487,526
				19,213
				(106,846)
				1,538
506,734	219,505	153,551		7,614,871
			13,024	275,847
<u>\$ 525,764</u>	<u>\$ 221,484</u>	<u>\$ 161,473</u>	<u>\$ 16,474</u>	<u>\$ 10,292,149</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Bourbon County includes all budgeted and unbudgeted funds under the control of the Bourbon County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds include non-fiduciary financial activities, and private purpose trust funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Wright House Fund - This fund is for the repairs and maintenance of the Center For Women. The Wright House property was jointly donated to Bourbon County and City of Paris. The primary source of receipts for this fund is rental income from women residing in the home. Since the property became vacant, Bourbon County donated the property back to Commonwealth of Kentucky during fiscal year 2013.

Phase 1 Fund - The primary purpose of this fund is to account for a settlement between tobacco-growing states and the four largest cigarette manufacturers to offset income losses farmers are expected to experience as a result of changes within the tobacco industry. Compensation is limited to those individuals, residing in the state of Kentucky, who maintain a vested interest in tobacco production. At any point an individual or entity ceases to be actively involved with tobacco production, compensation designated for this party would revert to the pool of compensation to be shared by active tobacco producers (quota owners and tenants).

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Courthouse Bonds Fund - The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the County. The Public Properties Corporation issued debt to complete renovations on the courthouse. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Public Properties Corporation Bond Proceeds Fund - The Public Properties Corporation Fund accounts for the activities of the Public Properties Corporation, a blended component unit of the County. The Public Properties Corporation issued debt to construct/finance a judicial center. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

Educational Trust Fund Checking - The Education Trust Fund Checking accounts for the activities of the Private Purpose Trust Funds. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Courthouse Bonds Fund, the Public Properties Corporation Bond Proceeds Fund, or the Educational Trust Fund Checking to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Bourbon County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Bourbon County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Cash and Investments

A. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

B. Cash and Investments by Type

As of June 30, 2014, the County had the following cash and investments:

I. Cash	<u>Cost</u>
Cash	\$ 2,401,431
Certificate of Deposit	275,847
Money Market	<u>7,614,871</u>
Total Cash	<u>\$ 10,292,149</u>

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

II. Investments

	Cost					
	< 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	> 20 Years
Fixed Income Investments:						
Corporate Bonds	\$	\$ 420,868	\$ 50,000	\$	\$	\$
Government Bonds		284,387	64,533	80,114		
Total:	\$ 0	\$ 705,255	\$ 114,533	\$ 80,114	\$ 0	\$ 0

III. Other Investments:

	Cost
Common Stock	\$ 1,590,285
Mutual Funds	5,124,684
Total:	<u>6,714,969</u>
Total Investments	<u>\$ 7,614,871</u>

Interest Rate Risk. The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

Credit Risk. KRS 66.480 limits the County's investments in the following:

- Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government.
- Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- Bankers' acceptances for bank's rate in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.
- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency.
- Shares of mutual funds meeting specific characteristics outlined in the statute.

Also, the County is limited to investing no more than 20% in any one of four specifically mentioned investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk. See the chart below for credit ratings for each individual investment type.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Investments and Credit Ratings

	AAA	AA2	A2	A3	BAA3	B	Unrated	Cost
Fixed Income Investments:								
Corporate Bonds	\$	\$	\$	\$ 50,000	\$ 420,868	\$	\$	\$ 470,868
Government Bonds	429,034							429,034
Common Stock						1,590,285		1,590,285
Mutual Funds							5,124,684	5,124,684
Total Investments	\$ 429,034	\$ 0	\$ 0	\$ 50,000	\$ 420,868	\$ 1,590,285	\$ 5,124,684	\$ 7,614,871

Concentration of Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The Fifth Third, Kentucky Bank, and PNC Bank Total Return Bond Funds exceeded five percent or more of the total investments for the County. The Fifth Third Total Return Bond Fund represents approximately 8% of total investment for the County. The Kentucky Bank Total Return Bond Fund represents approximately 6% of total investment for the County. The PNC Bank Total Return Bond Fund represents approximately 6% of total investment for the County.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2014, the County's investments were not exposed to custodial credit risk.

Note 3. Long-term Debt

A. Promissory Term Note Agreement

During fiscal year ended June 30, 1998, the Bourbon County Public Properties Corporation entered into a promissory term note agreement with Community Ventures Corporation for the purchase and renovation of a manufacturing facility. The Public Properties Corporation was obligated to pay \$131,500 in principal payments over seven years, beginning in 1997 and ending in 2004. On November 15, 2004, the Public Properties Corporation refinanced this promissory term note, with an obligation to pay \$98,656 in principal payments over sixty (60) months, beginning December 15, 2004, with a balloon payment scheduled to be made at the end of the note. On February 18, 2010, the Public Properties Corporation refinanced this promissory term note again, with an obligation to pay \$73,157 in principal payments over sixty (60) months at a stated interest rate of 6.25%, beginning March 15, 2010, with a balloon payment scheduled to be made at the end of the note. As of June 30, 2014, the outstanding principal balance of this note was \$42,762. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 42,762	\$ 362
Totals	\$ 42,762	\$ 362

The note is secured by a mortgage on the real estate located at 8 Legion Drive in Bourbon County.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Long-term Debt (Continued)

B. First Mortgage Revenue Bonds, Series 2006 (Court Facilities Project)

On December 1, 2006, the Bourbon County Public Properties Corporation issued First Mortgage Revenue Bonds, Series 2006, in the amount of \$4,260,000 for the purpose of the defeasance of the 2000 Series Bonds, along with paying the associated costs of issuing the bond. Under this arrangement, the Corporation made provision for discharge of the 2000 Series Bonds by depositing with the Trustee permissible investment obligations sufficient to pay all principal and interest requirements on the 2000 Series Bonds to a permitted date of redemption, or to the date of maturity; consequently, the Corporation has no further liability for the 2000 Series Bonds. Principal and interest payments are due February 1, beginning in 2009, and interest, which varies from 3.4% to 4.0%, is payable semiannually on February 1 and August 1, beginning February 1, 2007. As of June 30, 2014, the principal balance was \$2,565,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 280,000	\$ 98,040
2016	295,000	87,960
2017	305,000	77,045
2018	320,000	65,760
2019	330,000	53,600
2020-2022	1,035,000	82,660
Totals	<u>\$ 2,565,000</u>	<u>\$ 465,065</u>

On December 1, 2006, the Fiscal Court entered into a lease agreement with the Administrative Office of the Courts (AOC), which states that the AOC agrees to pay 100% of the debt service requirements. The lease does not require the Fiscal Court to make any rental payments toward the project; however, the Fiscal Court is obligated to provide operation, maintenance, insurance and repair of the project.

The bonds are secured by the foreclosable first mortgage on the property and an assignment by the Bourbon County Public Properties Corporation of its rights, title and interest in the lease with the AOC.

C. General Obligation Public Project Bonds, Series 2006 (Courthouse Renovations I)

On October 1, 2006, the Bourbon County Public Properties Corporation issued \$2,000,000 of General Obligation Public Bonds, Series 2006, for the purpose of renovating the courthouse. Principal payments are due biannually on August 1, beginning in 2007, and interest, which varies from 3.5% to 3.75%, is payable semi-annually on August 1 and February 1, beginning on February 1, 2007. As of June 30, 2014, the outstanding principal balance was \$690,000.

The bonds are secured by the County's ability to levy, and its pledge to levy, an annual tax to pay the principal and interest of the bonds.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Long-term Debt (Continued)

C. General Obligation Public Project Bonds, Series 2006 (Courthouse Renovations I) (Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 220,000	\$ 21,498
2016	230,000	13,255
2017	240,000	4,500
Totals	<u>\$ 690,000</u>	<u>\$ 39,253</u>

D. General Obligation Public Project Bonds, Series 2007 (Courthouse Renovations II)

On February 1, 2007, the Bourbon County Public Properties Corporation issued \$1,750,000 in General Obligation Public Project Bonds, Series 2007, for the purpose of paying additional costs relating to courthouse renovations. Principal payments are due annually on February 1, beginning in 2009, and interest, which varies from 3.625% to 3.85%, is payable semi-annually on August 1 and February 1, beginning August 1, 2007. As of June 30, 2014, the outstanding principal balance was \$1,280,000.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 75,000	\$ 48,995
2016	80,000	46,183
2017	85,000	43,183
2018	85,000	39,952
2019	90,000	36,722
2020-2024	505,000	129,168
2025-2027	360,000	28,105
Totals	<u>\$ 1,280,000</u>	<u>\$ 372,308</u>

The bonds are secured by the County's ability to levy, and its pledge to levy, an annual tax to pay the principal and interest of the bonds.

E. Kentucky Association of Counties Revenue Bonds, Series 2014A (Energy Savings Project)

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$275,000 for the purpose of renovating the courthouse. Principal payments are due annually on December 20, beginning in 2014, and interest, which varies from 2.48% to 3.25%, is payable semi-annually on June 20 and December 20, beginning on June 20, 2014. As of June 30, 2014, the outstanding principal balance was \$275,000. The bond proceeds were not received until September 18, 2014.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Long-term Debt (Continued)

E. Kentucky Association of Counties Revenue Bonds, Series 2014A (Energy Savings Project)
(Continued)

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 25,000	\$ 8,569
2016	25,000	8,000
2017	25,000	7,188
2018	25,000	6,375
2019	25,000	5,562
2020-2024	<u>150,000</u>	<u>13,625</u>
Totals	<u>\$ 275,000</u>	<u>\$ 49,319</u>

F. Kentucky Association of Counties Revenue Bonds, Series 2014B (Jail Project)

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$120,000 for the purpose of renovating the jail. Principal payments are due annually on December 20, beginning in 2014, and interest, which varies from 1.51% to 2.41%, is payable semi-annually on June 20 and December 20, beginning on June 20, 2014. As of June 30, 2014, the outstanding principal balance was \$120,000. The bond proceeds were not received until September 18, 2014.

Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 25,000	\$ 3,348
2016	20,000	2,788
2017	25,000	2,063
2018	25,000	1,250
2019	<u>25,000</u>	<u>438</u>
Totals	<u>\$ 120,000</u>	<u>\$ 9,887</u>

G. Bank Fixed Rate Lease (Fire Trucks)

On June 24, 2013, Kentucky Bank issued a fixed rate lease in the amount of \$322,442 for the purpose of leasing fire trucks. Principal and interest, which is calculated at fixed rate of 2.5%, are due biannually on June 20 and December 20, beginning on December 20, 2013. As of June 30, 2014, the outstanding principal balance was \$260,470.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Long-term Debt (Continued)

G. Bank Fixed Rate Lease (Fire Trucks) (Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 63,163	\$ 6,205
2016	64,441	4,607
2017	65,763	2,955
2018	67,103	1,279
Totals	<u>\$ 260,470</u>	<u>\$ 15,046</u>

H. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 2,255,000	\$	\$ 285,000	\$ 1,970,000	\$ 300,000
Revenue Bonds	2,840,000	395,000	275,000	2,960,000	330,000
Financing Obligations **	372,738		69,506	303,232	112,130
Total Long-term Debt	<u>\$ 5,467,738</u>	<u>\$ 395,000</u>	<u>\$ 629,506</u>	<u>\$ 5,233,232</u>	<u>\$ 742,130</u>

** Beginning Balance does not agree to prior year due to the omission of Fire Trucks Lease from prior year.

Note 4. Private Purpose Trust Funds

Private-purpose trust funds are used to report all trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

The fiscal court has the following private purpose trust funds:

John Marston Educational Fund – This fund was established by the will and codicil of John Marston. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Private Purpose Trust Funds (Continued)

Clifton Gillespie Fund – This fund was established by the will and codicil of Clifton Gillespie. The will imposed that the funds be held in perpetuity, which means that the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance with hospitals to indigent residents of Bourbon County. The County Judge/Executive decides who shall receive assistance from this fund by applications submitted. Each eligible person is limited to \$2,000.

Willmott Memorial Trust Fund – This fund was established by the will and codicil of James Worthington Willmott. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to college students or potential college students residing in Bourbon County, Kentucky and the counties adjacent to Bourbon County. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

E. M. Costello Fund – This fund was established by the will and codicil of E. M. Costello. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships to young men and women between the ages of fourteen and twenty-one residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Garth Fund – This fund was established by the will and codicil of William Garth. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships to young men residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Thomas Costello Fund – This fund was established by the will and codicil of Thomas Costello. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is to be spent for educational scholarships to young men residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Hamilton Fund – This fund was established by the will and codicil of John H. Hamilton. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The income less applicable administrative costs is to be spent for educational scholarships to young women between the ages of twelve and twenty-one residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Robert Meteer Fund – This fund was established by the will and codicil of Robert Meteer. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to young women residing in Bourbon County, Kentucky who want to continue their education at a college institution. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Private Purpose Trust Funds (Continued)

Lucy Anderson Fund – This fund was established by the will and codicil of Lucy D. Anderson. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to male college students or potential male college students residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Harrell-Kennedy Fund – This fund was established by the will and codicil of Mary Kennedy Tarr. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to female college students or potential female college students living in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Brooks Hinkle Fund – This fund was established by the will and codicil of Elaine B. Hinkle. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to college students or potential college students residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Lou Davis Redmon Fund – This fund was established by the will and codicil of Lou Davis. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The income less applicable administrative costs is to be spent for educational scholarships to young women residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

May Goff Fund – This fund was established by the will and codicil of May Goff. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The income less applicable administrative costs is to be spent for educational scholarships to young men and women residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Talbott Clay Fund – This fund was established by the will and codicil of Talbott Clay. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide educational scholarships for clothing, school supplies, means of transportation to and from school and any equipment other than tuition fees to young men and women residing in Bourbon County, Kentucky. These benefits are to be granted to the heirs of Albert R. Talbott and Ayletti H. Bedford first. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Frances Champ Fund – This fund was established by the will and codicil of Lula T. Champ. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance to female college students or potential female college students residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Private Purpose Trust Funds (Continued)

Ella Davis Fund – This fund was established by the will and codicil of Ella Davis. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance, for transportation, to cancer patients residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

F. M. Gillespie Fund – This fund was established by the will and codicil of F.M. Gillespie. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to account for income generated by the principal. The income less applicable administrative costs is for financial support to widows and orphans residing in Bourbon County, Kentucky.

Howard Forquer Fund – This fund was established by the will and codicil of Hallie H. Forquer. The will imposed that the funds be held in perpetuity, which means the original principal amount remain intact. The primary purpose of this fund is to provide financial assistance with education to young girls and boys residing in Bourbon County, Kentucky. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Health and Welfare Fund – This fund was established by two deposits from a trust account for financial assistance to Bourbon County residents with medical expenses. These deposits were for the assistance of the Health and Welfare Fund and not for the creation of the fund. The County has a committee, appointed by the County Judge/Executive, which decides how the money shall be disbursed based on applications received by the County Judge/Executive's office.

Education #1 Fund – This fund was established to consolidate the following trust funds: E.M. Costello Fund, Garth Fund, Thomas Costello Fund, Hamilton Fund, and Frances Champ Fund in 2014.

Education #2 Fund – This fund was established to consolidate the following trust funds: Harrell-Kennedy Fund, Brooks Hinkle Fund, Lou Davis Redmon Fund, May Goff Fund in 2014.

Note 5. Commitments and Contingencies

Bourbon County Fiscal Court is currently involved in a civil litigation filed by an injured Plaintiff who alleges negligence of maintenance of an uneven section of the stairway in the courthouse. Counsel appointed by the county's insuring agency is handling this matter on behalf of the Bourbon County Fiscal Court. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the County cannot be made.

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Employee Retirement System (Continued)

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$450,956, FY 2013 was \$475,496, and FY 2014 was \$550,769.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 7. Deferred Compensation

The Bourbon County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2014, Bourbon County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Bourbon County-Nicholas County Regional Jail Authority

Under KRS 441.800 the Bourbon County Fiscal Court approved an order to form the Bourbon County – Nicholas County Regional Jail Authority, effective July 1, 2010, which houses inmates from both Bourbon and Nicholas Counties. Under KRS 441.810 the Regional Jail Authority is composed of members appointed by the county judges/executive of the respective counties, with Bourbon County appointing three members and Nicholas County appointing two members. Additionally, the Bourbon County Fiscal Court approved a four and half year management-and-use agreement, inclusive of a lease clause for the use of the Bourbon County detention center at \$1 per year.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 10. Violence Against Women Act Court Training and Improvement Grant

The Bourbon County Fiscal Court received grant funds in the amount of \$41,780 from the Department of Justice for the Violence Against Women and Department of Justice Reauthorization Act of 2005, Section 105 to improve court responses to adult and youth domestic violence, dating violence, sexual assault, and stalking. During fiscal year 2014, they spent \$33,897 for their intended purpose: (1) improved internal civil and criminal court functions, responses, practices, and procedures; (2) education for court-based and court-related personnel on issues relating to victims' needs, including safety, security, privacy, confidentiality, and economic independence, as well as information about perpetrator behavior and best practices for holding perpetrators accountable; (3) collaboration and training with Federal, State, tribal, territorial, and local public agencies and officials and nonprofit, nongovernmental organizations to improve implementation and enforcement of relevant Federal, State, tribal, territorial, and local law; (4) enabling courts or court-based or court-related programs to develop new or enhance current -- (A) court infrastructure (such as specialized courts, dockets, intake centers, or interpreter services); (B) community-based initiatives within the court system (such as court watch programs, victim assistants, or community-based supplementary services); (C) offender management, monitoring, and accountability programs; (D) safe and confidential information-storage and -sharing databases within and between court systems; (E) education and outreach programs to improve community access, including enhanced access for underserved populations; and (F) other projects likely to improve court responses to domestic violence, dating violence, sexual assault, and stalking; and (5) providing technical assistance to Federal, State, tribal, territorial, or local courts wishing to improve their practices and procedures or to develop new programs.

Note 11. Prior Period Adjustments – Private Purpose Trust Funds

Bourbon County Fiscal Court administers private purpose trust funds, as described in Note 4, which were included in the notes to the financial statement rather than as a fund on the financial statement in the prior year audit report. As disclosed in the prior year audit report, in fiscal year 2013, the Bourbon County Fiscal Court changed its basis of accounting to the regulatory basis of accounting as described or permitted by the Department for Local Government and laws of the Commonwealth of Kentucky which allowed the private purpose trust funds to be included in the financial statement as a note disclosure only. Based on changes in the regulatory basis of accounting as prescribed by the Department for Local Government and laws of the Commonwealth of Kentucky, for fiscal years ending on or after June 30, 2014, these private purpose trust funds will be included as funds on the financial statement. The net effect on beginning balance was an increase of \$8,405,754.

BOURBON COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 12. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	Total Transfers Out	Total Transfers In
Jason Marson Education Trust Fund	\$ 62,150	\$
Clifton Gillespie Trust Fund	83,303	
Willmott Memorial Trust Fund	120,000	
EM Costello Trust Fund	32,141	
Garth Trust Fund	126,965	
Thomas Costello Trust Fund	5,553	
Hamilton Trust Fund	11,107	
Lucy Anderson Trust Fund	12,721	
Harrell-Kennedy Trust Fund	35,478	
Brooks Hinkle Trust Fund	27,028	
Lou Davis Redmon Trust Fund	34,378	
May Goff Trust Fund	68,928	
Frances Champ Trust Fund	51,373	
Howard Forquer Trust Fund	17,137	
Education Trust Fund Checking		315,430
Education #1 Champ, Costello, Garth, Costello Trust Fund	6,967	219,505
Education #2 Kennedy, Hinkle, Redmon Trust Fund	1,583	161,877
Total Transfers Out	<u>\$ 696,812</u>	<u>\$ 696,812</u>

Reason for transfers: To consolidate trust funds to minimize financial institution fees.

BOURBON COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 3,588,000	\$ 3,588,000	\$ 4,059,780	\$ 471,780
Excess Fees	683,824	1,367,203	814,746	(552,457)
Licenses and Permits	54,125	54,125	66,970	12,845
Intergovernmental	2,484,725	3,098,913	980,726	(2,118,187)
Charges for Services	10,000	10,000	14,140	4,140
Miscellaneous	26,918	27,418	143,268	115,850
Interest	13,000	13,000	12,824	(176)
Total Receipts	6,860,592	8,158,659	6,092,454	(2,066,205)
DISBURSEMENTS				
General Government	1,852,483	2,736,198	2,175,707	560,491
Protection to Persons and Property	2,045,043	2,172,794	1,851,692	321,102
General Health and Sanitation	1,723,166	1,730,166	219,863	1,510,303
Social Services	238,048	814,812	230,194	584,618
Recreation and Culture	411,631	440,759	279,054	161,705
Debt Service	445,374	350,680	350,636	44
Capital Projects		179,683	171,520	8,163
Administration	1,544,847	1,530,508	1,169,519	360,989
Total Disbursements	8,260,592	9,955,600	6,448,185	3,507,415
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,400,000)	(1,796,941)	(355,731)	1,441,210
Other Adjustments to Cash (Uses)				
Bond Proceeds		396,941		(396,941)
Total Other Adjustments to Cash (Uses)		396,941		(396,941)
Net Change in Fund Balance	(1,400,000)	(1,400,000)	(355,731)	1,044,269
Fund Balance Beginning	1,400,000	1,400,000	1,611,758	211,758
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,256,027	\$ 1,256,027

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,594,251	\$ 1,924,751	\$ 1,976,672	\$ 51,921
Miscellaneous	1,000	1,000	14,118	13,118
Interest	3,000	3,000	7,078	4,078
Total Receipts	1,598,251	1,928,751	1,997,868	69,117
DISBURSEMENTS				
General Health and Sanitation	40,000	40,000	21,151	18,849
Roads	750,161	812,718	741,664	71,054
Capital Projects	435,000	907,125	886,494	20,631
Administration	573,090	368,908	279,037	89,871
Total Disbursements	1,798,251	2,128,751	1,928,346	200,405
Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses)	(200,000)	(200,000)	69,522	269,522
Net Change in Fund Balance	(200,000)	(200,000)	69,522	269,522
Fund Balance Beginning	200,000	200,000	262,664	62,664
Fund Balance - Ending	\$ 0	\$ 0	\$ 332,186	\$ 332,186

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 157,943	\$ 157,943	\$ 186,425	\$ 28,482
Miscellaneous			2,263	2,263
Interest	700	700	958	258
Total Receipts	158,643	158,643	189,646	31,003
DISBURSEMENTS				
Protection to Persons and Property	132,000	132,000	109,367	22,633
Administration	41,643	41,643	28,352	13,291
Total Disbursements	173,643	173,643	137,719	35,924
Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses)	(15,000)	(15,000)	51,927	66,927
Net Change in Fund Balance	(15,000)	(15,000)	51,927	66,927
Fund Balance Beginning	15,000	15,000	10,584	(4,416)
Fund Balance - Ending	\$ 0	\$ 0	\$ 62,511	\$ 62,511

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 88,500	\$ 88,500	\$ 75,662	\$ (12,838)
Interest	800	800	1,012	212
Total Receipts	89,300	89,300	76,674	(12,626)
DISBURSEMENTS				
Protection to Persons and Property	70,200	72,070	66,775	5,295
Capital Projects	98,100	96,230	60,000	36,230
Total Disbursements	168,300	168,300	126,775	41,525
Excess (Deficiency) of Receipts Over Adjustments to Cash (Uses)	(79,000)	(79,000)	(50,101)	28,899
Net Change in Fund Balance	(79,000)	(79,000)	(50,101)	28,899
Fund Balance Beginning	79,000	79,000	101,931	22,931
Fund Balance - Ending	\$ 0	\$ 0	\$ 51,830	\$ 51,830

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

WRIGHT HOUSE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 25	\$ 25	\$ 26	\$ 1
Total Receipts	25	25	26	1
DISBURSEMENTS				
General Government	26,851	26,851		26,851
Total Disbursements	26,851	26,851		26,851
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(26,826)	(26,826)	26	26,852
Net Change in Fund Balance	(26,826)	(26,826)	26	26,852
Fund Balance Beginning	26,826	26,826	26,785	(41)
Fund Balance - Ending	\$ 0	\$ 0	\$ 26,811	\$ 26,811

BOURBON COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

PHASE 1 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 334,313	\$ 334,313	\$ 326,875	\$ (7,438)
Interest	1,000	1,000	2,255	1,255
Total Receipts	335,313	335,313	329,130	(6,183)
DISBURSEMENTS				
Administration	335,313	335,313	278,588	56,725
Total Disbursements	335,313	335,313	278,588	56,725
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			50,542	50,542
Net Change in Fund Balance			50,542	50,542
Fund Balance Beginning			109	109
Fund Balance - Ending	\$ 0	\$ 0	\$ 50,651	\$ 50,651

BOURBON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of General Fund Budgetary Information

Auditors included the County's Payroll Revolving Account in the General Fund – Other Adjustments to Cash, increasing revenues by \$19,213. This account had not been previously budgeted and was not included in the General Fund.

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BOURBON COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

BOURBON COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 856,877	\$	\$	\$ 856,877
Buildings	11,161,350	485,826		11,647,176
Vehicles and Equipment	1,964,583	51,603	137,343	1,878,843
Other Equipment	1,679,372	170,038	5,000	1,844,410
Infrastructure	6,519,697	712,256		7,231,953
 Total Capital Assets	 <u>\$ 22,181,879</u>	 <u>\$ 1,419,723</u>	 <u>\$ 142,343</u>	 <u>\$23,459,258</u>

BOURBON COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 25,000	10-50

Note 2. Restatement of Capital Assets Beginning Balance

Vehicles and Equipment beginning balance was restated \$32 to correct errors noted with prior year.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Donnie R. Foley, Former Bourbon County Judge Executive
The Honorable Michael R. Williams, Bourbon County Judge/Executive
Members of the Bourbon County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Bourbon County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated June 30, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Bourbon County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Bourbon County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bourbon County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments as items 2014-001 and 2014-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bourbon County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001 and 2014-002.

County Judge's Response to Finding

The Bourbon County Judge's response to the finding identified in our audit is described in the accompanying comments and recommendations. The County Judge's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

June 30, 2015

**BOURBON COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

BOURBON COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The County Should Accurately Report Debt On The Quarterly Financial Statement

The debt schedules presented with the prior year and current year 4th Quarter Reports, which also serve as the County's year-end financial statements, materially misstated debt obligations.

- Misstatement of \$322,442 Debt On Prior Year Financial Statements

On June 23, 2013, the County entered into a Bank Fixed Rate Lease in the amount of \$322,442 for the purpose of leasing fire trucks. This debt was not recorded in the prior year audit due to its omission on the County's 4th Quarter Report, resulting in a prior period audit adjustment in the amount of \$322,442.

- Misstatement of \$426,115 Debt On Current Year Financial Statements

The Bank Fixed Rate Lease mentioned above was reported on the County's current year 4th Quarter Report, however, the principal amount outstanding at June 30, 2014 was overstated. The amount of misstatement on the 4th Quarter Report at June 30, 2014 was \$31,115.

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$120,000 for the purpose of renovating the jail. This debt was not reported on the County's 4th Quarter Report. The principal amount outstanding and amount of misstatement on the 4th Quarter Report at June 30, 2014 was \$120,000.

On April 3, 2014, the Kentucky Association of Counties Finance Corporation issued Financing Program Revenue Bonds, Series 2014A, in the amount of \$275,000 for the purpose of renovating the courthouse. This debt was not reported on the County's 4th Quarter Report. The principal amount outstanding and amount of material misstatement on the 4th Quarter Report at June 30, 2014 was \$275,000.

An accurate debt schedule is necessary for Department of Local Government reporting requirements. Strong internal controls over outstanding debt and liabilities ensure accurate financial reporting. We recommend that the County ensure that correct amounts are shown on all financial statements presented to the public and to the Department of Local Government. We further recommend that the County review all aspects of the Quarterly Reports before signing and submitting.

Michael R. Williams, Bourbon County Judge Executive's Response: No response provided.

BOURBON COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-002 The County Should Strengthen Controls Over Payroll

The County contracts a service organization to process payroll biweekly. This third party calculates amounts due employees and withholdings payable to various entities, processes checks and returns them to the County Judge/Executive for signatures and distribution. The County then transfers funds to the Payroll Revolving Account and to the Payroll Fringe Account. Adequate controls were not in place to ensure the accuracy of the service organization's reports, evidenced by the following deficiencies:

- Bank reconciliations for the Payroll Revolving Account and the Payroll Fringe Account were not being prepared on a monthly basis and were not being reviewed by a person independent of preparation.
- The Payroll Revolving Account was not being zeroed out, having an ending cash balance of \$19,213. This balance fluctuated monthly and could not be explained.

All reports to and from the service organization should be reviewed for accuracy. The Payroll Revolving Account and the Payroll Fringe Account should be reconciled monthly in order to resolve any discrepancies, errors, or omissions that may arise. These reconciliations should be reviewed by someone other than the person who prepares them. All payroll deposits into clearing accounts should agree to the total amount of the payroll checks issued for each payroll, resulting in zero ending cash balances at the end of each month.

We recommend that the County strengthen controls over payroll by reviewing all payroll reports, timely preparing bank reconciliations for all payroll accounts, and reconciling each revolving account to zero on a monthly basis.

Michael R. Williams, Bourbon County Judge Executive's Response: Effective 7/1/15, a new payroll revolving fund was created so we have a definite balancing number.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

BOURBON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

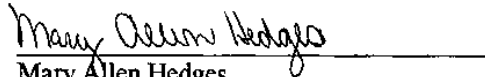
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
BOURBON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Bourbon County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Michael Williams
Bourbon County Judge/Executive



Mary Allen Hedges
Bourbon County Treasurer

